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Kwai Chung Container Terminal Blockage Ends Without Damage to U.S. Agricultural Exports

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Report Highlights:

A 5-day partial blockage of Hong Kong's Kwai Chung container terminal ended in the evening of February 13 following intervention by the Hong Kong Government. During the 5-day blockade, U.S. agricultural exports to Hong Kong were not significantly affected other than possibly being stuck on the roads out of Kwai Chung for some time due to the traffic jam. The blockade also did not have any significant impact on U.S. re-exports to China through Hong Kong.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Hong Kong [HK1], HK

A 5-day partial blockage of Hong Kong's Kwai Chung container terminal ended in the evening of February 13 following intervention by the Hong Kong Government. Truck drivers serving the terminal had blockaded several access points in protest against a HK\$40 surcharge per container imposed by mid-stream operators. The blockade ended when parties concerned agreed that drivers would not be liable for the surcharge.

During the 5-day blockade, U.S. agricultural exports to Hong Kong were not significantly affected other than possibly being stuck on the roads out of Kwai Chung for some time due to the traffic jam. The blockade also did not have any significant impact on U.S. re-exports to China through Hong Kong. Operations at the mainland border were not affected by the blockade and neither were the portion of transshipments made at sea.

About 1,000 trucks staged a slow-drive protest in the container port terminal area starting last Friday, February 9, against a \$40 container handling fee that mid-stream barge operators requested drivers to pre-pay on behalf of shippers. Drivers claimed that the handling fee should be charged directly to shippers. The blockage partially paralyzed traffic leading to some major terminals. Industry sources estimated that about 5% to 10% of the current daily 20,000 TEUs were affected by the traffic congestion occurring in the terminal area.

The row between the drivers and the mid-stream operators - the firms that load and unload containers by barge to and from ships - has continued on and off for months. The drivers are angry at the Mid-stream Operators Association's surcharge of HK\$40 a cargo. They have staged two huge blockades in the past 3 months since the fee was announced. Operators only started to collect it last week. Drivers argued that the surcharge should be charged to shippers directly and it is unfair that drivers have to prepay it on behalf of shippers.

Realizing the difficulty of getting reimbursed by shippers after paying the surcharge, most truck operators viewed it as a direct reduction to their earnings. There are two major reasons. First, there are many trucks in Hong Kong and competition for business is so keen that some drivers would be willing to absorb these additional handling charges so as to lure more business. In the end, the whole industry will suffer a loss. Secondly, most truck companies have already signed an annual contract establishing rates with shippers, so it is unlikely they would be able to recover the additional charges from shippers.

On the other hand, barges or mid-stream operators also realize that they will have a hard time to collect money from their clients, shippers, therefore they attempted to pass the burden on to truck drivers. A major mid-stream operator that pushed hard for collecting the surcharge from truckers was Mid-Stream Holding Ltd, wholly owned by Hutchison Whampoa, which also owns HIT, a major terminal operator. HIT's terminal was the primary target of the blockade, although other terminal operators like Sealand and MTL were affected to a lesser extent.

Last year Hong Kong's container port was probably the busiest in the world, handling about 16,200,000 TEUs. Fortunately, the 5-day blockage took place during the low season for trade following the long Chinese New Year Holiday, so the current daily throughput is estimated at only approximately 20,000 TEUs. However, the blockade has inevitably delayed consignments of goods, tarnishing Hong Kong's trade image and posing a negative impact on Hong Kong's

economy.

The current dispute ended only after the Hong Kong Government initiated negotiations among parties involved. After lengthy discussions by various associations concerning mid-stream operators, shippers, consigners, truck drivers and the government, it was agreed that drivers will not be liable to pay any additional surcharge on behalf of shippers, now or in the future. A mechanism for collecting the surcharge will be worked out within the next week. With this agreement reached, the drivers ended the slow-drive protest and Hong Kong's container handling operations are returning to normal.